

1974 ANNUAL REPORT OF THE BOARD OF
TRUSTEES OF THE FEDERAL
SUPPLEMENTARY MEDICAL INSURANCE
TRUST FUND

LETTER

FROM

BOARD OF TRUSTEES
FEDERAL SUPPLEMENTARY MEDICAL INSURANCE
TRUST FUND

TRANSMITTING

THE 1974 ANNUAL REPORT OF THE BOARD (NINTH REPORT),
PURSUANT TO THE PROVISIONS OF SECTION 1841(b) OF THE
SOCIAL SECURITY ACT, AS AMENDED (42 U.S.C. 1395t(b)(2))



JUNE 3, 1974.—Referred to the Committee on Ways and Means,
and ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE

LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND,
Washington, D.C., May 31, 1974.

The SPEAKER OF THE HOUSE OF REPRESENTATIVES,
Washington, D.C.

SIR: We have the honor to transmit to you the 1974 Annual Report of the Board of Trustees of the Federal Supplementary Medical Insurance Trust Fund (the ninth such report), in compliance with the provisions of section 1841(b) of the Social Security Act, as amended.

Respectfully,

WILLIAM E. SIMON,
Secretary of the Treasury,
and Managing Trustee of the Trust Funds.

PETER J. BRENNAN,
Secretary of Labor.

CASPAR W. WEINBERGER,
Secretary of Health,
Education, and Welfare.

JAMES B. CARDWELL,
Commissioner of Social Security.

CONTENTS

	Page
The Board of Trustees.....	1
Highlights.....	1
Social security amendments since 1973 report.....	1
Nature of the trust fund.....	2
Summary of the operations of the trust fund, fiscal year 1973.....	3
Advisory Council on Social Security.....	6
Expected operations and status of the trust fund, July 1, 1973, to June 30, 1976.....	7
Actuarial status of the trust fund.....	8
Conclusion.....	11
Appendixes:	
A. Statement of actuarial assumptions and bases employed in determining the adequate actuarial rates and the standard premium rate for the supplementary medical insurance program beginning July 1974.....	13
B. Actuarial methodology and principal assumptions for cost estimates for the SMI program.....	16
C. Summary of principal provisions.....	26

1974 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND

THE BOARD OF TRUSTEES

The Federal Supplementary Medical Insurance Trust Fund, established on July 30, 1965, is held by the Board of Trustees under the authority of section 1841(b) of the Social Security Act, as amended. The Board is comprised of three members who serve in an ex-officio capacity. The members of the Board are the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare. The Secretary of the Treasury is designated by law as the Managing Trustee. The Commissioner of Social Security is Secretary of the Board. The Board of Trustees reports to the Congress once each year, in compliance with Section 1841(b)(2) of the Social Security Act. This Report is the annual report for 1974, the ninth such report.

HIGHLIGHTS

(a) The growth of the supplementary medical insurance trust fund during fiscal 1973 was somewhat higher than estimated in the 1973 Report. Income for fiscal 1973 of \$2.9 billion was up about 6% from fiscal 1972. Expenditures for benefit payments and administration were \$2.6 billion, an increase of about 4% over those for fiscal 1972. The cash balance of the trust fund grew by \$265 million to reach \$746 million by the end of fiscal 1973.

(b) The solvency of the trust fund, which must be measured on an incurred basis, also improved during fiscal 1973, but the financing was still in a deficit position at the end of that year. The deficit decreased from \$368 million at the end of fiscal year 1972 to \$225 million at the end of fiscal year 1973.

(c) In December 1973, the standard premium rate for fiscal year 1975 was promulgated at \$6.70 per month. Appendix A gives a statement of the actuarial assumptions and bases employed by the Secretary of Health, Education, and Welfare in determining this premium rate.

(d) The number of enrollees had by July 1973 reached 20.6 million, about 96% of the total population age 65 and over.

SOCIAL SECURITY AMENDMENTS SINCE THE 1973 REPORT

No major amendments to the Social Security Act have been directed to the Supplementary Medical Insurance Program since the close of fiscal year 1973.

However, a drafting error in P.L. 93-233 specifying the method of computation of automatic cash benefit increases effectively prevents further increases in the SMI standard monthly premium rate at the time of automatic cash benefit increases for years after 1975. This

report reflects this inadvertent premium freeze in fiscal year 1976 figures. The Trustees recommend that future amendments correct this oversight.

NATURE OF THE TRUST FUND

The Federal supplementary medical insurance trust fund was established on July 30, 1965, as a separate account in the United States Treasury to hold the amounts accumulated under the supplementary medical insurance program. All the financial operations which relate to the system of supplementary medical insurance are handled through this fund.

The major sources of receipts of the trust fund are (1) premiums paid by eligible persons who are voluntarily enrolled in the program and (2) contributions of the Federal government that are authorized to be appropriated and transferred from the general fund of the Treasury according to a fixed ratio to premiums received based on the applicable adequate actuarial rate promulgated for the period in which payable.

Standard monthly premium rates are promulgated each year by the Secretary of Health, Education, and Welfare. The standard premium rates in effect since the beginning of the program, July 1966, through June 1974, and the rate promulgated for the fiscal year beginning July 1974, are shown in table 1.

Expenditures for benefit payments and administrative expenses under the program are paid out of the trust fund. All expenses incurred by the Department of Health, Education, and Welfare and by the Treasury Department in carrying out the supplementary medical insurance provisions of Title XVIII of the Social Security Act are charged to the trust fund. The Secretary of Health, Education, and Welfare certifies benefit payments to the Managing Trustee, who makes the payment from the trust fund in accordance therewith.

Hospitals, at their option, are permitted to combine their billing for both hospital costs and physician components of radiology and pathology services rendered hospital inpatients by hospital-based physicians. Where hospitals elect this billing procedure, payments are made initially from the hospital insurance trust fund, with reimbursement later to it from the supplementary medical insurance trust fund. The reimbursements so made are on a provisional basis and are subject to adjustment, with appropriate interest allowances, as the actual experience develops and is analyzed.

The Social Security Amendments of 1967 and 1972 authorize the Secretary of Health, Education, and Welfare to develop and conduct a broad range of experiments and demonstration projects designed to determine various methods of increasing efficiency and economy in providing health care services, while maintaining the quality of such services, under the hospital insurance and supplementary medical insurance programs. The costs of such experiments and demonstration projects are paid out of the hospital insurance and supplementary medical insurance trust funds. The costs paid out of the supplementary medical insurance trust fund are included as part of benefit payments in the financial statements of operations of the trust fund as set forth in subsequent sections of this report.

Congress has authorized expenditures from the trust fund for construction of office buildings and related facilities for the Social Security Administration. The costs of such construction are included on a

current basis as part of the administrative expenses in the financial statements of operations of the trust fund as set forth in following sections of this report. The net worth of the resulting facilities—like the net worth of all other fixed capital assets—is not carried as an asset in such statements.

That portion of the trust fund which, in the judgment of the Managing Trustee, is not required to meet current expenditures for benefits and administration is invested in interest-bearing obligations of the United States Government (including special public-debt obligations described below), in obligations guaranteed as to both principal and interest by the United States, or in certain federally-sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. Obligations of these types may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price.

The Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust fund. The law requires that such special public-debt obligations shall bear interest at a rate based on the average market yield (computed by the Managing Trustee on the basis of market quotations as of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States forming a part of the public debt which are not due or callable until after the expiration of four years from the end of such calendar month.

TABLE 1.—Standard monthly premium rates

Period:	Premium rate
July 1966 to March 1968.....	\$3. 00
April 1968 to June 1970.....	4. 00
Fiscal year:	
1971.....	5. 30
1972.....	5. 60
1973.....	5. 80
1974 ¹	6. 30
1975.....	6. 70

¹ In accordance with limitations on the costs of health care imposed under Phase III of the Economic Stabilization Program, the standard premium rate for July and August 1973 was set at \$5.80 and \$6.10, respectively. Effective September 1973, the rate increased to \$6.30.

SUMMARY OF THE OPERATIONS OF THE TRUST FUND, FISCAL YEAR 1973

A statement of the income and disbursements of the Federal supplementary medical insurance trust fund during fiscal year 1973 and of the assets of the fund at the beginning and end of the fiscal year is presented in table 2. Comparable amounts for fiscal year 1972 are also shown in the table.

The total assets of the trust fund amounted to \$481 million on June 30, 1972. During fiscal year 1973, total receipts amounted to \$2,902 million and total disbursements were \$2,637 million. Total assets thus increased \$265 million during the year to a total of \$746 million on June 30, 1973.

Of the total receipts, \$1,427 million represented premium payments by (or on behalf of) the participants, an increase of 6.5 percent over

premium payments by participants in the preceding fiscal year. This growth in premiums from participants resulted primarily from (1) the increase from \$5.60 to \$5.80 per month in the standard premium rate that became effective on July 1, 1972, and (2) the expected growth in the number of persons enrolled in the supplementary medical insurance program.

Matching contributions received from the general fund of the Treasury, less a relatively small interest transfer to the general fund, amounted to \$1,430 million. The remaining \$45 million of receipts consisted almost entirely of interest on the investments of the trust fund.

Of the \$2,637 million in total disbursements, \$2,385 million represented benefits paid directly from the trust fund for health services covered under Title XVIII of the Social Security Act and about \$104,000 represented amounts paid under incentive reimbursement arrangements. In addition, transfers were made to the hospital insurance trust fund consisting of \$6 million for inpatient professional radiology and pathology services that were paid initially from the hospital insurance trust fund but that are liabilities of the supplementary medical insurance trust fund. Total benefit payments from the trust fund in fiscal year 1973, therefore, amounted to \$2,391 million, an increase of 6.0 percent over the corresponding amount paid in fiscal year 1972.

The remaining \$246 million of disbursements was for net administrative expenses. Administrative expenses are allocated and charged directly to each of the four trust funds—old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance—on the basis of provisional estimates. Periodically, as actual experience develops and is analyzed, adjustments to the allocations of administrative expenses and costs of construction for prior periods are effected by interfund transfers, with appropriate interest allowances.

In table 3, the experience with respect to actual amounts of participants' premiums, Government matching contributions, and benefit payments in fiscal year 1973 is compared with the estimates for fiscal year 1973 which appeared in the 1973 Annual Report of the Board of Trustees. The actual experience was relatively close to the estimates.

The assets of the trust fund at the end of fiscal 1973 totaled \$746 million, consisting of \$700 million in the form of obligations of the United States Government and an undisbursed balance of \$46 million. Table 4 shows a comparison of the total assets of the fund and their distribution at the end of fiscal years 1972 and 1973.

The net increase in the par value of the investments held by the fund during fiscal year 1973 amounted to \$222 million. New securities at a total par value of \$3,186 million were acquired during the fiscal year, through the investment of receipts and reinvestment of funds made available from the redemption of securities. The par value of securities redeemed during the year was \$2,965 million. Included in these amounts is \$2,905 million in certificates of indebtedness that were acquired and redeemed within the fiscal year.

The effective annual rate of interest earned by the assets of the supplementary medical insurance trust fund during fiscal year 1973 was 6.1 percent. The interest rate on public-debt obligations issued for purchase by the trust fund in June 1973 was 6% percent, payable semiannually.

TABLE 2.—STATEMENT OF OPERATIONS OF THE SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND DURING FISCAL YEARS 1972 AND 1973

[In thousands]

	Fiscal year—	
	1972	1973
Total assets of the trust fund, beginning of year.....	\$290,056	\$480,703
Receipts:		
Premiums from participants:		
Deducted from monthly benefits ¹	1,114,521	1,192,934
Deposited by States.....	137,943	149,350
Paid to Social Security Administration ²	87,588	84,323
Total premiums.....	1,340,052	1,426,607
Transfers from general fund of the Treasury:		
Government contributions:		
Matching of participants' premiums received in current fiscal year.....	1,338,005	1,428,604
Delayed matching of participants' premiums received in prior fiscal years.....	24,991	2,047
Total matching contributions.....	1,362,995	1,430,652
Interest on delayed transfers of Government matching contributions ³	2,300	—201
Total transfers from general fund of the Treasury.....	1,365,295	1,430,451
Interest:		
Interest on investments.....	28,947	43,070
Interest on amounts of interfund transfers due to adjustment in allocation of administrative expenses and construction costs.....	51	1,979
Gross interest.....	28,998	45,049
Less interest on transfers to the hospital insurance trust fund for reimbursement of benefits paid therefrom.....	5	—
Net interest.....	28,993	45,049
Total receipts.....	2,734,341	2,902,106
Disbursements:		
Benefit payments:		
Paid directly from the trust fund for costs of—		
Health services.....	2,248,820	2,385,128
Incentive reimbursement arrangements ⁴	169	104
Transfers to the hospital insurance trust fund for reimbursement of payments made initially from that fund for costs of—		
Radiology and pathology services ⁴	6,000	6,000
Incentive reimbursement arrangements ⁵	81	—
Total benefit payments.....	2,255,069	2,391,232
Administrative expenses:		
Department of Health, Education, and Welfare ⁶	282,904	269,887
Treasury Department.....	57	20
Civil Service Commission.....	104	72
Construction of facilities for Social Security Administration.....	1,373	1,064
Interfund transfers due to adjustment in allocation of—		
Administrative expenses ⁷	4,042	—24,953
Construction costs ⁷	147	—223
Gross administrative expenses.....	288,627	245,867
Less receipts from sale of surplus supplies, materials, etc.....	8	6
Net administrative expenses.....	288,619	245,861
Total disbursements.....	2,543,688	2,637,093
Net addition to the trust fund.....	190,653	265,014
Total assets of the trust fund, end of year.....	480,709	745,722

¹ Transferred from the old-age and survivors insurance and disability insurance trust funds, the railroad retirement account, and the civil service retirement and disability fund.

² By certain persons not receiving monthly benefits.

³ The negative figure for fiscal year 1973 represents a transfer from the supplementary medical insurance trust fund to the general fund of the Treasury and results from a downward adjustment in the interest due on delayed transfers in fiscal year 1972.

⁴ For explanation, see text.

⁵ Beginning March 1972 incentive reimbursement payments are being made on a current basis from each of the two trust funds, supplementary medical insurance and hospital insurance, so that no transfer was necessary in fiscal year 1973.

⁶ Includes administrative expenses of the carriers and intermediaries.

⁷ A positive figure represents a transfer from the supplementary medical insurance trust fund to the other social security trust funds. A negative figure represents a transfer to the supplementary medical insurance trust fund from the other social security trust funds.

TABLE 3.—COMPARISON OF ACTUAL AND ESTIMATED OPERATIONS OF THE SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND, FISCAL YEAR 1973

[Amounts in millions]

Item	Actual amount	Estimated amount published in 1973 report	Actual as percentage of estimate
Premiums from participants.....	\$1,427	\$1,424	100
Government matching contributions.....	1,430	1,426	100
Benefit payments.....	2,391	2,445	98

Note: In interpreting the figures in the above table, reference should be made to the accompanying text.

TABLE 4.—ASSETS OF THE SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND, BY TYPE, AT THE END OF FISCAL YEARS 1972 AND 1973

	June 30, 1972		June 30, 1973	
	Par value	Book value ¹	Par value	Book value ¹
Investments in public-debt obligations sold only to this fund (special issues):				
Notes:				
5½-percent, 1979.....	\$232,150,000	\$232,150,000.00	\$232,150,000	\$232,150,000.00
6¼-percent, 1978.....	245,925,000	245,925,000.00	185,719,000	185,719,000.00
6¾-percent, 1980.....			281,762,000	281,762,000.00
Total investments in public-debt obligations.....	478,075,000	478,075,000.00	699,631,000	699,631,000.00
Undisbursed balance.....		2,633,909.42		46,091,485.58
Total assets.....		480,708,909.42		745,722,485.58

¹ Par value, plus unamortized premium, less discount outstanding.

ADVISORY COUNCIL ON SOCIAL SECURITY

The Secretary of Health, Education, and Welfare on April 23, 1974, announced the appointment of an Advisory Council on Social Security under the provisions of section 706 of the Social Security Act. The Council, which consists of a Chairman and 12 members representing organizations of employers and of employees, self-employed persons, and the public, is making a comprehensive study of the old-age and survivors insurance, disability insurance, hospital insurance, and supplementary medical insurance programs.

The Council is required to review the status of the old-age and survivors insurance trust fund, the disability insurance trust fund, the hospital insurance trust fund, and the supplementary medical insurance trust fund in relation to the long-term commitments of the programs. The Council will review the scope of coverage, the adequacy of benefits, and other aspects of these four programs, including their impact on public assistance. The Council is required to submit its final reports to the Secretary of Health, Education, and Welfare no later than January 1, 1975. After the Council's reports are transmitted by the Secretary to the Congress and to the Board of Trustees of each of the trust funds, the Council will cease to exist. The Council's report and recommendations with respect to the supplementary medical insurance program will be included in the next annual report of the Board of Trustees.

EXPECTED OPERATIONS AND STATUS OF THE TRUST FUND DURING
THE PERIOD JULY 1, 1973, TO JUNE 30, 1976

The projected cash income, disbursements, and balance of the trust fund during the period July 1, 1973 to June 30, 1976 are summarized in table 5, along with a summary of the past transactions of the trust fund through June 30, 1973.

Income to the program is projected to increase by about 29% in fiscal year 1974 over fiscal 1973, due to the increase in the premium rate from \$5.80 per month for fiscal 1973 to \$6.30 per month for fiscal 1974, increased enrollment in the program, and increased government contributions for disabled enrollees. An increase of 13% is projected for fiscal 1975.

Benefit expenditures for fiscal year 1974 are expected to increase by 21% over those for fiscal 1973. This increase is due largely to the extension of medicare coverage to the disabled. Benefit payments for fiscal year 1975 are expected to increase 25% over those for fiscal year 1974.

The estimate of benefit payments for fiscal year 1974 assume an average increase in reasonable charges of 2½% above the 1973 level consistent with the guidelines issued by the price commission. The fiscal 1975 screens are to be updated in the usual manner.

TABLE 5.—ESTIMATED PROGRESS OF SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND (CASH BASIS), FISCAL YEARS 1974-76, AND ACTUAL DATA FOR 1967-73

[In millions]

Fiscal year	Premiums from participants	Government contributions ¹	Benefit payments	Administrative expenses	Interest on fund	Balance in fund at end of year ²
Actual experience:						
1967.....	\$647	\$623	\$664	\$ 134	\$15	\$486
1968.....	698	634	1,390	143	21	307
1969.....	903	984	1,645	195	23	378
1970.....	936	928	1,979	217	12	57
1971.....	1,253	1,245	2,035	248	17	290
1972.....	1,340	1,365	2,255	288	29	481
1973.....	1,427	1,430	2,391	246	45	746
Estimate of future experience:						
1974.....	1,683	2,008	2,900	441	55	1,151
1975.....	1,845	2,327	3,623	445	72	1,327
1976.....	1,884	3,004	4,245	487	84	1,567

¹ The payments shown as being from the general fund of the Treasury include certain interest-adjustment items.

² Represents only a cash balance; financial status of the program depends on total net assets and liabilities of the program.

³ Administrative expenses shown include those paid in fiscal 1966 and 1967.

⁴ Includes some 1973 administrative expense.

Trust fund withdrawals for administrative expenses are expected to increase to \$441 million in fiscal year 1974. This increase is due largely to an understatement of \$26 million in the administrative expenses allocated to the Supplementary Medical Trust Fund in fiscal 1973, which will be reversed in fiscal 1974 and to the coverage of new beneficiaries. Fiscal 1975 administrative expenses are expected to increase to \$445 million.

The trust fund balance is projected to increase from \$746 million at the beginning of fiscal 1974 to \$1151 million at the end of that year, and to \$1327 million at the end of fiscal 1975.

ACTUARIAL STATUS OF THE TRUST FUND

1. Actuarial soundness of the supplementary medical insurance program

The concept of actuarial soundness, as it applies to the Supplementary Medical Insurance System, is closely related to the concept as it applies to private group insurance. The Supplementary Medical Insurance System is essentially yearly renewable term insurance; and in testing its actuarial soundness, it is not appropriate to look beyond the period for which the premium rate and the level of general revenue financing have been established.

The primary test of actuarial soundness relates to the adequacy of the income for fiscal years not yet completed, but for which the premium rate and the level of general revenue financing have been established. The income for such years should be sufficient to meet the benefits incurred and associated administrative expenses for the period. The law requires the Secretary of Health, Education, and Welfare to establish the income on this basis.

A second test of actuarial soundness is whether the trust fund assets, at the end of the period for which the premium rate and the level of general revenue financing have been established, will be as large as the liabilities—particularly those for services (and associated administrative expenses) that have been performed but for which reimbursement has not yet been made. This test will be met if the primary test of actuarial soundness has been met for all prior periods but it may not be met, even though the financing is currently adequate and the primary test is therefore met, if in the past the income was inadequate to meet incurred benefits and administrative expenses. It is considered desirable that this second test be met, because of the possibility that the financing of the Supplementary Medical Insurance Program might some time be changed, in which event any deficit would become a burden upon the new financing. In addition to the tests of actuarial soundness, a crucial test of the adequacy of the trust fund is that it is never in serious danger of becoming exhausted. This test of adequacy can be met even in the event that neither test of actuarial soundness as described above is met, since the existence of the fund may permit (at least temporarily) the payment of benefits even though the premium rate is inadequate.

2. Incurred experience of the supplementary medical insurance program

Both of the tests of actuarial soundness of the Supplementary Medical Insurance program noted above rely on the incurred experience of the program. Cash disbursements for benefits and administrative expenses by themselves are misleading, due to the relatively large liabilities outstanding at any time for benefits and processing costs that must be paid for services already performed. These liabilities result from the lag between the time that services are performed and the time that benefits for them are paid, due to the tendency of enrollees to accumulate bills and submit them together (especially at the end of the year), and the time required by carriers to process and adjudicate the bills received. The liability outstanding at any time for benefits for services performed for which no payment has been made may be referred to as "benefits incurred but unpaid."

Estimates of the amount of benefits incurred but unpaid as of the end of each fiscal year, and of the administrative expenses related to

processing these benefits, appear in table 6. Also included in table 6 are estimates of premiums voluntarily paid in advance and the government matching contributions for such premiums. Since they are paid for services to be performed in a subsequent fiscal year, they are a liability of the program on the valuation date. Offsetting these liabilities are premiums due and uncollected, government matching contributions due but not yet transferred to the trust fund by the Treasury, and the cash and securities in the trust fund.

The incurred experience of the program for any period is obtained by adjusting the cash flow of premiums, matching government contributions, interest, benefit payments, and administrative expenses to an accrual basis by adding the net increase in each asset or liability item during that period to the corresponding item on a "cash" basis. This procedure produces the estimated incurred income and disbursements shown in table 7.

TABLE 6.—SUMMARY OF ESTIMATED ASSETS AND LIABILITIES OF THE SUPPLEMENTARY MEDICAL INSURANCE PROGRAM, AT THE END OF FISCAL YEARS 1967-75

[In millions]

	Past experience, as of June 30—						Projected as of June 30—		
	1967	1968	1969	1970	1971	1972	1973	1974	1975
A. Assets:									
Balance in trust fund.....	\$486	\$307	\$378	\$57	\$290	\$481	\$746	\$1,151	\$1,327
Premiums due and uncollected.....	1	1	1	2	2	2	2	2	2
Government contributions due and unpaid.....	25	90	9	18	26	1	-2	2	3
Total assets.....	512	398	388	77	318	484	746	1,155	1,332
B. Liabilities:									
Benefits incurred but unpaid.....	515	625	679	681	727	750	839	1,184	1,368
Administrative cost thereon.....	55	63	75	82	95	98	128	154	178
Premiums collected in advance.....	1	1	2	2	2	2	2	2	2
Government contributions thereon.....	1	1	2	2	2	2	2	2	3
Total liabilities.....	572	690	758	767	826	852	971	1,342	1,551
C. Net Surplus (or deficit).....	-60	-292	-370	-690	-508	-368	-225	-187	-219
D. Ratio of assets to liabilities.....	.90	.58	.51	.10	.38	.57	.77	.86	.86

TABLE 7.—ESTIMATED INCOME AND DISBURSEMENTS INCURRED UNDER SUPPLEMENTARY MEDICAL INSURANCE PROGRAM, FISCAL YEARS 1967-75

[In millions]

Fiscal year	Premiums from participants	Government contributions ¹	Benefit payments	Administrative expenses	Interest on fund	Net of operations in year
Past experience:						
1967.....	\$647	\$647	\$1,179	\$190	\$15	-\$60
1968.....	699	699	1,500	151	21	-232
1969.....	903	904	1,698	210	23	-78
1970.....	936	937	1,982	223	12	-320
1971.....	1,253	1,253	2,081	260	17	+182
1972.....	1,340	1,342	2,278	293	29	+140
1973.....	1,427	1,430	2,480	279	45	+143
Projected:						
1974.....	1,683	2,008	3,245	463	55	+38
1975.....	1,845	2,327	3,807	469	72	-32

¹ Includes interest for any delay in transfer of Government contributions.

² Includes administrative expenses incurred prior to the beginning of the program.

TABLE 8.—COMPARISON OF INCOME AND EXPENDITURES INCURRED PER CAPITA PER MONTH IN FISCAL YEARS 1972-75

Fiscal year	Aged	Income			Expenditures			Net
		Rate ¹	Interest	Total	Benefits	Adminis- trative	Total	
1972.....	\$5.60	\$11.20	\$0.12	\$11.32	\$9.48	\$1.24	\$10.72	\$0.60
1973.....	5.80	11.60	.18	11.78	10.10	1.32	11.42	.36
1974.....	6.30	12.60	.22	12.82	10.90	1.42	12.32	.50
1975.....	6.70	13.40	.24	13.64	12.18	1.58	13.76	-.12
Disabled:								
1974.....		29.00	.04	29.04	25.73	3.21	28.94	² .10
1975.....		36.00	.05	36.05	33.38	3.32	36.70	² -.65

¹ Combined monthly premium and general revenue matching payments.

² Margin included for contingencies in financing for fiscal year 1975.

3. Adequacy of income in fiscal years 1974-75

The financing for the Supplementary Medical Insurance program has been set by promulgation of the adequate actuarial rates and the standard premium rates by the Secretary through fiscal 1975 as described in Appendix A. Since enrollment is voluntary and both income and outgo change directly with enrollment—it is appropriate to assess the adequacy of such financing on a monthly per capita basis. Table 8 compares the monthly income incurred per capita for fiscal years 1972-1975 with the estimated incurred expenditures. A minor deficiency is projected to occur in fiscal year 1975. This deficiency results from the expiry of cost controls in April 1974 after financing had been established by the promulgation of adequate rates in December 1973.

4. Accumulated Surplus or Deficit of the Program

The failure of the program to meet the second test of actuarial soundness at the end of fiscal year 1975 is demonstrated by table 6, which shows the accumulated deficit at the end of fiscal years 1967 through 1975 and the ratio of this deficit to the outstanding liabilities. These ratios show the extent to which funds are available to pay the accumulated liabilities of the program. The deficit shows the burden that would need to be picked up if the source of financing the program were to be changed at some future time.

The program developed a relatively modest deficit of \$207 million during the first 1½ years, due to an initial premium rate that proved to be about 8% low. The deficit increased further as a result of congressional action which retained the initial premium rate for an additional 3 months, through the first quarter of 1968. The deficit further increased by a relatively small amount during the next 15 months, during which the increased premium rate proved to be slightly low. The deficit accumulated by December 1969 was considered sufficiently manageable, so that the statutory provision for a contingency reserve